STATEMENT OF CORPORATE INTENT

2016-17 – 2018-19

PĀMU
FARMS OF
NEW ZEALAND

LANDCORP
NEW ZEALAND

OBJECTIVES, NATURE AND SCOPE

About Landcorp

Landcorp Farming Limited (Landcorp) is a state owned enterprise established under the State Owned Enterprises Act 1986 (the Act) and is a company registered under the Companies Act 1993. The shareholders are the Minister of State Owned Enterprises and the Minister of Finance. The Landcorp group comprises Landcorp Farming Limited and its subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, Landcorp Pastoral Limited, Focus Genetics Limited Partnership and Focus Genetics Management Limited (the Group).

Objectives

Under the Act, Landcorp is required to operate as a successful business and specifically to be:

- As profitable and efficient as comparable businesses that are not owned by the Crown
- A good employer
- An organisation that exhibits a sense of social responsibility having regard to the interests of the community in which it operates.

Nature and scope of business

Landcorp is a leader in New Zealand agriculture and strives for best practice in dairy, sheep, beef and deer farming, for sustainable use of resources and continuous improvement in livestock genetics and farm systems. Landcorp is one of New Zealand's largest farming organisations, managing approximately 140 properties and 1.6 million stock units. Landcorp's Pāmu brand simply means “to farm” and reflects the provenance and quality of Landcorp’s products and its commitment to productive partnerships. The nature and scope of our business activities over the next three years are reflected in our strategy and performance targets described in more detail in the following sections of this SCI.

OBJECTIVES, NATURE AND SCOPE (2)

Strategy and key initiatives

Landcorp is entering the third year of its new strategic plan. Landcorp is making progress, and continues to refine the strategic direction as its business model develops. The updated strategy places particular emphasis on the three critical components to Landcorp's business model:

1. Farming carefully
   a. Protecting and developing our **people**
   b. Minding the well-being of our **animals**
   c. Nurturing our **environment**
2. Farming smartly
   a. Using best practice **systems** and processes
   b. Adopting leading science and technology to drive **innovation**
3. Creating **value**
   a. Integrating our products into niche markets focused on unique consumer needs

The following pages set out Landcorp's strategy and its key initiatives. Landcorp's ambitious strategy will, by definition, take time to materialise into bottom line impact. However, Landcorp remains focused on driving this strategy towards both a step-change in financial performance and a transformation of farming practices in New Zealand.

OUR PURPOSE: TO TRANSFORM NZ FARMING, BY CAREFULLY CREATING QUALITY NATURAL PRODUCTS

WHAT WE'LL DO:

- Improve margins by delivering **operational excellence in our core** meat, wool, milk businesses
- Transform our profitability by investing in farm systems & supply chains that **create unique, high-quality natural products**
- Develop **innovative uses for land** that optimise economic and environmental returns
- Build **intellectual property** in our brand (Pāmu) and the technologies and systems driving on-farm value
- Create partnerships that fuel **external investment**

HOW WE'LL DO IT:

PEOPLE
Provide the SAFEST, most enriching work place for talented and motivated people

ANIMALS
Produce exceptional productivity and products through animal management and welfare

PĀMU

ENVIRONMENT
Protect and enhance the environment through savvy farming

VALUE
Integrate our products into value chains focused on niche markets, driven by a deep understanding of future consumers needs

SYSTEMS
Use standardised processes and systems to drive best practice

INNOVATION
Adopt leading science and technology to improv our people, our animals and the environment

OUR VALUES: DEEP INSIGHT SHEER DETERMINATION COMPLETE OPENNESS KAITIAKITANGA

KEY STRATEGIC INITIATIVES (1)

Landcorp's key activities and initiatives to deliver on its strategy in 2016-17 and beyond are:

VALUE	• Develop and implement Pāmu Promise, a programme to ensure we farm carefully and smartly across all our farms • Establish, develop and build Pāmu brand and credentials • Expand initiatives to minimise volatility with fixed price, long term contracts and other mechanisms • Explore land use capability that can identify opportunities for alternative land uses beyond ruminant animals • Explore opportunities for higher-yielding use of Landcorp's capital and resources (including sale of some farms) • Continue to build Spring Sheep Dairy joint venture with a second season of sheep milking, and market and product development
PEOPLE	• Continuous improvement of health and safety systems, behaviours and practices to ensure all staff get home safe, every day • Implement a mental health and wellbeing programme on our farms • Continue to introduce and improve relevant training throughout the organisation to get the best out of our people

KEY STRATEGIC INITIATIVES (2)

ENVIRONMENT	• Continue building towards our goal of carbon neutrality by 2025 • Identify technologies and science to assist reduction of emissions and nutrient loss • Continue the work and impact of the Environmental Reference Group on our farming practices • Develop plans around alternative land uses at Wairakei Estate that meet environmental and economic targets
ANIMALS	• Create an Animal Welfare Reference Group • Develop and implement continuous improvement initiatives in relation to animal health • Replace PKE (palm kernel extract) with alternative feed sources on all dairy farms • Reduce wastage from deaths to under 2% over 3 years • Increase the rate of cows in calf by six weeks of mating to 80% average • Develop plan to create elite herd of top genetic cows in Landcorp • Implement plant to reduce empty rate in dairy herd by 10%
SYSTEMS AND INNOVATION	• Implement Farm Store (a company wide procure-to-pay system) to deliver time and money efficiencies in procurement • Introduce a project management office to drive the cost efficient and timely execution of projects across the company • Standardise and simplify on-farm technology systems • Improve rural connectivity for Landcorp farms • Improve usage of the Farm Management System

AIMS AND PERFORMANCE TARGETS

We aim to:

- Achieve a 10% return on our money while achieving an average annual 2% dividend yield
- Receive 75% of our EBIT from value-add income, fueled by Pāmu customer connections
- Have total recordable injury frequency rates in lowest decile of NZ corporates
- Be respected globally for our environmental leadership
- Be the partner of choice for customers, premium food companies and agri-sector investors

	Result Area	Key Performance Indicator	Target for 2016-17	Indication for 2017-18+
Performance targets	Financial	EBIT	-$0.7m	FY18: $4.6m FY19: $15.1m
		Interest cover ratio	> 1.24: 1	FY18: >1.93:1 FY19: >2.77:1
		Cost of Production - Livestock Cost of Production – Dairy (Owned)	≥ 1 % improvement on FY16 p.a. ≥ 5 % improvement on FY16 p.a.	≥ 1 % improvement year on year ≥ 1 % improvement year on year
	Value	Contracts secured above spot price	50% of meat and fibre revenue secured above spot price	
	Our People	Notifiable injuries Recordable injury frequency rate (TRIFR)	25% improvement on FY16	Continuous improvement
		Pāmu Promise H&S systems	75% implemented on all farms, as per Pāmu Promise plan	Full implementation
	Our Animals	Animal welfare code compliance	100% of farms on track to hit standards	
	Our Environment	Farms have a completed Environment scorecard and specific environmental targets within business plans	100% of farms on track to hit land and environment plans	
	Systems	Adoption of LEAN management system	LEAN program underway on all farms	Implemented on all farms
	Innovation	Effective utilisation of FMS	100% of farms using core FMS technology	

FINANCIAL PERFORMANCE MEASURES

This following table sets out financial performance measures based on standards reporting and definitions requested by the Shareholder for all SOEs in the Owner's Expectation Manual.

		Budget 2016/17	***Budget 2017/18***	***Budget 2018/19***
Shareholder Returns				
Total Shareholder Return	*%*	0.0%	0.0%	0.0%
Return on Equity	*%*	-0.9%	-0.5%	0.3%
Return on Equity, adjusted for IFRS fair value	*%*	-0.9%	-0.5%	0.3%
Dividend Yield	*%*	0.0%	0.0%	0.0%
Dividend Payout	*%*	0.0%	0.0%	0.0%
Profitability & Efficiency				
Return on Capital Employed	*%*	-0.1%	0.3%	1.1%
Operating Margin	*%*	7.2%	10.0%	14.2%
Leverage & Solvency				
Gearing	*%*	12.6%	14.0%	14.3%
Interest Cover	*x*	1.24	1.93	2.77
Solvency*	*x*	3.54	3.26	2.98
Capital Expenditure				
Net Capital Expenditure	*$m*	29.2	43.5	37.4

* Current portion of long term debt is excluded from the definition of Current Liabilities, on the basis that all debt will be refinanced as it matures, and operating cash flow is positive i.e. debt is used to fund capital expenditure, not working capital.

DESCRIPTION OF CALCULATION OF FINANCIAL PERFORMANCE MEASURES FOR SOE PORTFOLIO

Shareholder's return Measure	Description	Calculation
Total shareholder return	Performance from an investor perspective - dividends and investment growth	(Commercial value-end less Commercial value-beg plus dividends paid less equity injected)/Commercial value-beginning
Dividend yield	The cash return to the shareholder	Dividends paid/Average commercial value
Dividend payout	Proportion of an SOE's net operating cash flow less allowance for capital maintenance paid out as a dividend to the shareholder	Dividends paid/Net cash flow from operating activities less depreciation expense
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax/Average equity
Return on equity adjusted for IFRS fair value Movements & asset revaluations	Return on equity after removing the impact of IFRS fair value movements and asset revaluations	Net profit after tax adjusted for IFRS fair value movements (net of tax)/Average of share capital plus retained earnings
Profitability/efficiency Measure		
Return on capital employed	The efficiency and profitability of a company's capital from both debt and equity sources	EBIT adjusted for IFRS fair value movements/Average capital employed
Operating margin	The profitability of the company per dollar of revenue	EBITDAF/Revenue
Leverage/solvency Measure		
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt/net debt plus equity
Interest cover	The number of times that earnings can cover interest	EBITDAF/Interest paid
Solvency	Ability of the company to pay its debts as they fall due	Current assets/current liabilities

CAPITAL STRUCTURE

The issued share capital of Landcorp Farming Ltd as at 30 June 2016 is 125 million ordinary shares at $1.00 each ($125 million) and 107,661,000 redeemable preference shares of $1.00 each, giving a total share capital of $232,661,000.

The redeemable preference shares reflect the commercial arrangement with the Crown that saw Landcorp's shareholder purchase redeemable preference shares up to an agreed market value of designated land that has been protected from sale. This land is held by Landcorp's subsidiary, Landcorp Holdings Limited, for the purpose of future historical Treaty of Waitangi settlements by the Crown.

After balancing operating, capital, and dividend cash flows, Landcorp's estimated closing interest bearing debt for the next three years is: $200.2m (30 June 2017), $224.3m (30 June 2018) and $228.5m (30 June 2019).

The estimated Landcorp Group capital structure for the next three years is as follows:

	Budget 2016/17 $m	***Budget 2017/18 $m***	***Budget 2018/19 $m***
Total Assets	1,727	1,732	1,734
Total Liabilities	338	364	371
Total Equity	1,389	1,367	1,363
Interest Bearing Debt / Total Funding	12.6%	14.0%	14.3%
Shareholders' Funds (Equity) / Total Assets	80.4%	79.0%	78.6%

DIVIDEND POLICY

Directors will consider dividends after achieving a target debt level consistent with the Board's risk appetite. Assuming the target debt level is achieved then Landcorp aims to pay Net Cash Flows From Operating Activities, less:

- maintenance capital expenditure; and
- contractually committed capital expenditure.

Investment in new business opportunities will be considered in light of the Shareholder's preference for dividends over new investment. The level of forecast dividend will be reviewed annually as part of the business planning process and at the end of each financial year. This policy ensures that Landcorp manages its capital structure prudently and allows for re-investment in accordance with its strategy, where appropriate.

As a farming company, most of Landcorp's revenue flows are in the second half of each financial year and Landcorp is also significantly exposed to commodity prices and exchange rates. This means that in the absence of extraordinary circumstances, farming operations are not in a position to fund an interim dividend. Therefore, dividends are normally paid in October following financial year end.

REPORTING AND DISCLOSURE

Reporting to shareholding Ministers

Landcorp presents the following reports in accordance with the Act and requirements of the shareholding Ministers:

- Annual Report: within three months of the end of each financial year and including audited financial statements of the year and a report from the Chairman and Chief Executive
- Half-Yearly Report: within two months of the end of each half year, including unaudited statement of financial position, and a qualitative report from the Chairman and Chief Executive on the company's performance
- Quarterly Reports: within one month of the end of each quarter and comprising a commentary and summary of financial performance

In addition, Landcorp has regular meetings with officials and one-off meetings with shareholding Ministers on an as-needed basis.

Continuous Disclosure

Landcorp is subject to SOE Continuous Disclosure Rules. Under these rules once Landcorp becomes aware of any "Material Information" concerning it, then Landcorp immediately releases that information to the public through its own and the Treasury's website after ensuring that shareholding Ministers are aware of that information.

Material Information requiring disclosure includes matters that may have a material effect on the current commercial value of Landcorp, dividend declarations or a transaction representing 5% or more of Landcorp's current commercial value. Exceptions to the disclosure rules include breach of an obligation of confidentiality, trade secrets, incomplete proposals or negotiations, matters of supposition and information generated for internal management purposes.

CONSULTATION AND COMPENSATION

Consultation

All share, equity or asset acquisitions or disposals will reflect Landcorp's strategy. Landcorp will consult with shareholding Ministers before it or any of its subsidiaries:

a) invests, by one or more related transactions, $20m or more in any activity within the nature and scope of its core business;

b) makes, by one or more related transactions, a significant investment in a business that is outside the nature and scope of its core business; and

c) sells or disposes of the whole or any substantial part of the company.

Compensation from the crown

Section 7 of the Act allows for the Crown to enter into an agreement with Landcorp under which the Crown would pay Landcorp for undertaking a non-commercial activity.

If the Crown wishes or requires Landcorp to undertake activities or assume obligations which constrain Landcorp from acting in a normal, business-like manner or which will or could impact on Landcorp's profit or value, Landcorp will seek compensation in accordance with section 7 of the Act. This includes compensation for retaining properties normally intended for sale but which might be required by the Crown to fulfil Treaty of Waitangi obligations.

APPENDICES

PĀMU FARMS OF NEW ZEALAND

LANDCORP NEW ZEALAND

APPENDIX 1 COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Background / Methodology

To fulfil Shareholder requirements, Ernst & Young were commissioned to assess the commercial value of Landcorp's Equity, which is specified as a Discounted Cash Flow (DCF) valuation of the business, adjusted for debt. This valuation analysis takes the Business Plan assumptions as given, other than for an agreed set of value drivers (particularly commodity prices and exchange rates), for which Monte Carlo analysis was used to simulate value ranges.

DCF Assumptions

- A discount rate of 5.65% was used, unchanged from the previous year.
- The DCF analysis was based on a 10-year financial model of Landcorp's business units. The 10 year financial model forecast future cash flows based on Landcorp's three year business plan, with forward projections for Years 4 to 10. In the years post the business plan, forecast future cash flows are largely projected to increase at 2%, a proxy for inflation.
- A nominal terminal growth rate falling in the range of 2% to 2.5% is assumed with cash flows in the terminal period based on Year 10.
- Capital expenditure is assumed to be $5m greater than depreciation in the terminal period reflecting annual land improvement capital expenditure that is not depreciated.
- 80% of Landcorp's enterprise value in the 'base case' explained by the DCF is attributed to the terminal value (cash flow beyond year 10). This is largely due to the improved performance of the business projected throughout the explicit period.

Commercial Value - DCF Versus Market Value

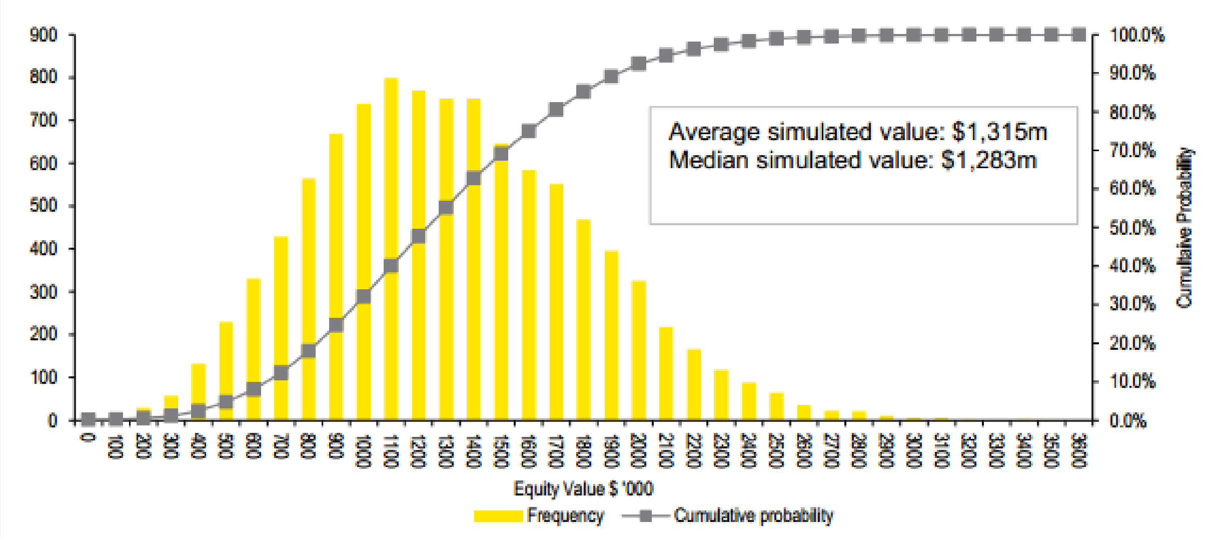
The Board notes that it is normal to observe material shortfalls in calculated DCF values relative to market prices with respect to rural land. This shortfall reflects the combination of non-pecuniary and pecuniary benefits of owning rural land that cannot be captured in a DCF approach, a conclusion supported by an independent review of Landcorp's commercial value in 2012 by PricewaterhouseCoopers.

As such, the Board considers the commercial value of Landcorp to be $1.41 billion as at 30 June 2016, based on the estimated market value of Landcorp assets and liabilities as assessed each year. This includes external valuation of land and buildings, forests, and market prices for livestock, shares and financial instruments. The value of liabilities is deducted from the value of the assets to determine the commercial value.

Results and Conclusion

The commercial value of Landcorp as implied by the base case DCF falls in the range of $872m to $1,016m with a midpoint of $939m at 30 June 2016. This is $42m lower than the midpoint valuation as at 30 June 2015, largely driven by a decrease in projected dairy volumes and prices, partially offset by the forecast sale of farms and less aggressive capital spend during the Business Plan period as a result of deferment.

Distribution of equity value outcomes generated by Monte Carlo simulation analysis:



The results generated by Monte Carlo analysis are more relevant to a DCF assessment of Landcorp's commercial value. This analysis gives an average simulated value of $1,315m and implies an 80 percent likelihood that Landcorp's DCF value falls between $650m and $1,900m. The higher Monte Carlo simulation value can be attributed to commodity prices, particularly dairy, being below the long run equilibrium, meaning output will be skewed upwards.

APPENDIX 2 SUMMARY OF FINANCIAL ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with NZ Generally Accepted Accounting Practice (GAAP) under the Companies Act 1993 and the Financial Reporting Act 2013, using a fair value basis, except for an historical cost basis for certain assets and liabilities. The financial statements comply with New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

NZ IFRS can significantly impact on Landcorp's reported income through the requirement to include material unrealised gains and losses within reported profits. This can substantially increase the volatility of reported income. In addition, Landcorp's forecast profits can be significantly different to actual results, depending on changes in the fair value of livestock, investments and income tax as calculated under NZ IFRS.

Measurement base

The financial statements have been prepared using a historic cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

Functional and presentation currency

The financial statements are presented in New Zealand dollars (NZ$) and all values are rounded to the nearest million dollars ($m). The functional currency of Landcorp is NZ$.

Changes in accounting policies

There have been no changes in accounting policies during the 2015/16 financial year.

Comparative information

When presentation or classification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

APPENDIX 2 SUMMARY OF FINANCIAL ACCOUNTING POLICIES

Significant Accounting Policies

Basis of consolidation

Subsidiaries

Subsidiaries are companies controlled by Landcorp and are included in the consolidated financial statements using the purchase method of consolidation. In the Parent, subsidiaries are valued at cost.

All significant intercompany balances and transactions are eliminated on consolidation. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of Landcorp's interest in the entity.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Livestock sales

Livestock sales, and sales of other agricultural produce, are recognised upon receipt by the customer when the risks and rewards of ownership have been transferred.

Agricultural produce

Agricultural produce, including milk and wool, is recognised at the point-of-harvest at its fair value less estimated point-of-sale costs.

Accounts receivable

Accounts receivable are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for irrecoverable amounts is recognised in the Statement of Comprehensive Income when there is objective evidence that a receivable is impaired.

Property held for sale

Property held for sale comprises property that has been identified for sale and development land. Properties that have been identified for sale are classified as property held for sale when a sales plan has been implemented and an unconditional sales contract is expected to be signed within a year. Development land is held for sale to development joint venture entities.
Property held for sale is measured at the lower of the carrying value of the property when it was classified as property held for sale and fair value less sales costs.

Livestock biological assets

Livestock are recorded at fair value less estimated point-of-sale costs. Changes in the value of livestock are recognised in the Statement of Comprehensive Income. Value changes that form part of Landcorp's livestock management policies, including animal growth and changes in livestock numbers, are recognised in the Statement of Comprehensive Income within revenue. Changes in value due to general livestock price movements are beyond Landcorp's control and do not form part of Landcorp's livestock management policies. These value changes are recognised in the Statement of Comprehensive Income as gain/loss due to price changes on livestock.

Other financial assets

(a) Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries are recorded at cost. Investments in associates and joint ventures are accounted for using the equity method. The investment is initially recognised at cost and the carrying value is increased or decreased to recognise the share of surplus or deficit of the entity after the date of acquisition. Distributions received from the entity reduce the carrying amount of the investment. If the share of losses exceeds the value of the investment a liability is recognised to the extent that the company has incurred a constructive or legal obligation.

(b) Loans to subsidiaries and other loans and receivables
Loans to subsidiaries and other loans and receivables are recorded at amortised cost, using the effective interest method.

Other financial assets (continued)

(c) Held-for-trading instruments
Derivative financial instruments are used by Landcorp to hedge interest-rate, foreign currency and commodity risks. Landcorp's financial management policies explicitly prohibit trading in financial instruments. The Group has elected not to apply hedge accounting. This means that all derivative financial instruments must be classified as held-for-trading for the purpose of NZ IFRS.

Held-for-trading instruments are recognised in the Statement of Financial Position as either assets or liabilities at fair value on trade date, with changes in fair value reported as revaluation gains and losses in the Statement of Comprehensive Income. The cash-flows arising from interest-rate derivatives are reported as a component of net finance costs in the Statement of Comprehensive Income.

(d) Available-for-sale investments
The Group is required to hold certain shares and investments in cooperative processing companies to facilitate farming operations. As such, the Group is normally unable to sell these investments without disrupting the Group's business operations. Under NZ IFRS, Landcorp's portfolio of shares and other investments in various cooperative and processing companies is classified as available-for-sale.

Available-for-sale investments are valued at fair value. Other changes in value are reported as other comprehensive income in the Statement of Comprehensive Income. On sale the revaluation component is recognised within operating profit in the Statement of Comprehensive Income.

(e) Impairment of financial assets
All financial assets are reviewed at balance date for indications of impairment. Where objective evidence of impairment exists, an investment is written down to the present value of expected cash flows, with the reduction in value being reported within operating profit in the Statement of Comprehensive Income. Subsequently, if the impairment diminishes for non-equity financial instruments, the appreciation in value is reported in the Statement of Comprehensive Income, to the extent that it reverses previous impairment losses.

Property, plant and equipment

Property, plant and equipment consists of land and improvements, protected land and improvements, plant, motor vehicles, furniture and equipment and computer equipment.

Land is measured at fair value and buildings are measured at fair value less accumulated depreciation and impairment losses. Protected land (including buildings on protected land) is valued at fair value at the time it is classified as protected land. Buildings are stated at this value less accumulated depreciation.

All other items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

(a) Revaluations
Freehold land and improvements (including buildings) are valued annually on 30 June at fair value by independent registered valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the assets revalued amount. Changes in valuation are taken to the freehold land and improvements revaluation reserve using the net revaluation method. Where an assets downwards revaluation exceeds previous positive revaluations, the amount of the revaluation is reported within profit or loss in the Statement of Comprehensive Income.

(b) Additions
An item of property, plant and equipment is initially recognised at cost plus directly attributable costs of bringing the item to working condition for its intended use.

Property, plant and equipment (continued)

(c) Disposal
Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains or losses on disposal of land are recognised as profit or loss on sale of land and gains and losses on disposal of other items of property, plant and equipment are recognised as gain or loss on disposal of property, plant and equipment in the Statement of Comprehensive Income. When revalued areas are sold, the revaluation reserve attributable to that item is transferred from the asset revaluation reserve to other equity.

(d) Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment other than land and land improvements. Depreciation rates are used to allocate the cost or revalued amount of the assets to their estimated residual values over their useful lives. The useful lives of major classes of property, plant and equipment have been estimated as follows:

Buildings	30 - 60 years
Plant	3 -10 years

(e) Impairment
If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its estimated recoverable amount. For property, plant and equipment that are revalued annually, this difference is accounted for in the same manner as a downwards revaluation. For property, plant and equipment recorded at depreciated historical cost an impairment loss is recognised in the Statement of Comprehensive Income. Recoverable amount is the greater of fair value less costs to sell and value in use.

Other financial liabilities

(a) Bank loans
Bank loans are initially recognised at their fair value. After initial recognition, all bank loans are measured at amortised cost using the effective interest method.

(b) Financial guarantees
Financial guarantees are recognised at the higher of the initial fair value less, where appropriate, accumulated amortisation and the best estimate of expenditure required under the financial guarantee contract.

Income tax

Income tax reported comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except where it relates to an item recognised directly in equity, where the income tax is recognised directly in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the tax base of those assets and liabilities. The amount of deferred tax provided is based on the difference between the tax base and the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent it is probable that future taxable benefits will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset when there is a legal right to offset tax liabilities with tax assets and when the Group intends to settle on a net basis.

Provision for dividends

Dividends are recognised in the period that they are authorised and declared.